IMPACT OF GST ON INDIAN STARTUPS

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ABSTRACT

ABSTRACT: GST (Goods and services tax) is being considered as one of the biggest tax reforms in India after independence. The idea of "One nation, one tax" has been welcomed by Businessmen, Governments, Professionals and policy makers. GST will simplify indirect taxes by integrating all major indirect taxes like Excise duty, service tax, VAT, Octroi etc. into one single tax, thus increasing the ease of business in India. The present paper tries to investigate the impact of GST on Indian start-ups. India is the home of the third largest startup ecosystem and the youngest startup nation with more than 4000 startups and 80000 employments in such start-ups.

This paper tries to briefly describe the salient features of GST, its applicability and important provisions like concept of taxable person, taxable point and composition levy scheme and a comparison of existing tax regime with the proposed GST and their impact on manufacturers, Traders, Service providers, Importers and Exporters. Introduction of GST will increase transparency and simplify the existing tax system, hence reducing documentation cost and increasing the ease of business for startups but it will also lead to an increase in effective tax rate for service providing startups and will at least increase inflation in short term. This paper tries to consider all possible advantages and disadvantages of GST on Indian startups. In conclusion we can say that although proposed GST act may not be completely perfect but in spite of all these problems GST is one of the most business friendly reforms in India and in long term the benefits of GST are likely to overcome the problems of GST.

KEYWORDS: Composition levy scheme, GST, Service providing startups, Taxable person, Taxable point.

1. INTRODUCTION

India is one of the fastest growing economies of the world. Skilled and cheap labour, growing demand and consumption and low political and legal risk makes India one of the best places for investment. However investors again and again have complained of the complex structure of taxation in India. Tax has been divided into 2 parts namely Direct tax (one which is directly paid by the ultimate consumer) and Indirect tax (one which is indirectly paid by the ultimate consumer). There are at least 20 different types of taxes that a new company may have to pay if they are going to start a business in India. This includes direct taxes like Income tax, corporate tax, dividend distribution tax, securities transaction tax and indirect taxes like custom duty, excise duty, service tax, VAT, central sales tax, entry tax and octroi etc. This leads to complexity, less transparency and difficulty in operating business in India. So in order to increase the ease of business and transparency, government has introduced a single "Goods and services tax" (GST) for almost all indirect taxes.

GST is one of the biggest and most important tax reforms in India which aims to remove the tax barriers of present tax system and create a single market for everyone. The Constitution (122nd Amendment) Bill, 2014 was passed and ratified by Lok Sabha and Rajya Sabha respectively for implementing GST by 1st April 2017. GST will simplify indirect taxes by integrating all major indirect taxes like Excise duty, service tax, VAT, Octroi etc. This idea of "one nation, one tax" has received positive feedback from all stakeholders.

The present paper tries to understand the impact of proposed GST on Indian startups. This paper also tries to find out the impact of proposed GST on manufacturer, service provider, Trader, Importer and exporter in comparison to present tax system.

This paper is divided into 9 sections as follows. After a brief introduction about the topic in section 1, the objectives of the study are listed down in section 2. Section 3 talks about the importance of the study in current economic scenario. A short literature review has been provided in Section 4.Research methodology of this paper has been discussed in section 5. In section 6, Salient feature of GST has been described. Section 7 compares present tax regime with proposed GST with focus on various stakeholders. Section 8 discusses the positive and negative impact of proposed GST on Indian startups. Summary and conclusion of this paper is elucidated in section 9. References used for this study are mentioned at the end of this research paper.

2. OBJECTIVES

1. To understand the process of proposed GST.
2. To compare the existing tax system with proposed GST
3. To find out the impact of GST on various stakeholders like traders, manufacturer, service provider, exporter and importer.
4. To ascertain the positive impact of GST on Indian Startups.
5. To ascertain the negative impact of GST on Indian Startups.

3. RATIONALE OF THE STUDY

According to NASSCOM's report on Indian Startup, India ranks 3rd among global startup ecosystem with more than 110 incubators with a growth rate of 40% and a funding of more than 5 billion. The average age of startup founders is just 28 yrs. which means India has one of largest pool of young aspiring entrepreneurs. Startups have become an important source of self- employment and employment to deserving unemployed youth in India. Startups are not only helping in enhancing our life style but are also providing innovative solutions to our day to day problem. Global investors like Softbank, Tiger global etc. are investing heavily in Indian startups which has resulted in increase in our FDI. Startups especially those related to technology and services have far reaching ripple effect on the socio economic fabric of the demography. It is anticipated that by 2020 India will be a home to 112 million working population falling in the age bracket of 20-24 years. This demographic dividend will definitely boost the startup culture in the country.

Taxation is one of the important factors for growth of economy as well as startups. A transparent, easy and simple taxation system with less paperwork will be more beneficial for startups. Now, with the introduction of proposed GST all indirect taxes will be subsumed into one single GST.

This will surely impact the cost of manufacturing or service providing by startups. Therefore it becomes important to assess the impact of such single tax on Indian startups.

This study tries to understand the changes that proposed GST will bring in Indian economy and its impact on the growth and cost structure of Indian startups.

4. LITERATURE REVIEW

Dr. R. Vasanthagopal (2011) concluded that Current indirect tax system is very complicated and switching to GST will be a huge positive step in booming Indian economy. According to him the Success of GST in India will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia too.

Nitin Kumar (2014) too believes that implementation of GST in India will help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

Monica Sehrawat and Upasana Dhanda (2015) believes that the burden of taxation under GST will be allocated fairly between manufacturing and services which will result in low tax rates with increase in tax base and minimized exemptions. They also believe that success of GST will be dependent on rational design

and timely implementation of GST.

Nishita Gutpa (2015) argues that GST is not simply VAT plus service tax, but a major improvement over the previous system of VAT and disjointed services tax – a justified step forward.

Shakir Shaik (2015) point outs that India will now join the world wide standards in taxation, corporate laws and managerial practices with introduction of GST and after sometime will be one of the leaders in all these fields.

However Shefali Dani(2016) sees proposed GST regime as a half-hearted attempt to rationalize and change very old indirect tax structure. She argues that there is no clear consensus over certain important issues like threshold limit, revenue rate, and inclusion of petroleum products, electricity, liquor and real estate. Until consensus on such items is reached, the government should resist from implementing such regime.

Hitesh K. Prajapati (2016) also supports this idea and says that the success of GST will depend on two important factors – 'RNR'(Revenue Netural rate) and 'threshold limit' for GST.

5. RESEARCH METHODOLOGY

Since GST is yet to be introduced, very less research has been in this field. Data has been collected from various secondary sources. The main source of research was the Draft GST bill available at Finance ministry's website along with reports of various firms like PWC and EY.NASSCOM's report on startup and CRISIL's report on logistics cost has been used for assessing the impact of GST on startups. Apart from this various newspaper articles and websites has been considered for this research paper list of which can be found in reference section.

6. SALIENT FEATURES OF GST

6.1. Applicability

Goods and service tax is applicable to whole of India including Jammu and Kashmir. GST is to be paid on supply of goods and services. For this purpose goods means all kind of movable properties which can be moved in physical form(only tangible).It further includes securities, growing corps and grass and things attached to land like signage or electricity pole. However it excludes money and actionable claim.

For the purpose of GST, Services means anything other than goods i.e. any activity either passive or active. It includes intangible property like patents, trademarks, copy rights etc. It also include actionable claim but excludes money.

6.2. Model of GST

Goods and services tax has been divided in 3 parts.

1) **I-GST:** Integrated GST which is levied on interstate supplies or services. In such cases, collection of taxes will be done by central government but the money will be distributed between Central government and state government.

2) **C-GST:** Central GST which is levied on intra state supplies or services in which collection and retention of such taxes is done by central government.

3) **S- GST:** State GST which is levied on intra state supplies or services in which collection and retention of such taxes is done by state government.

India has opted for dual model of GST. State GST is to be collected by the State Government; Central GST is to be collected by the central government and integrated GST is to be collected by the central government on inter-State transactions.

Table 1: Details of model of GST.

Basis	C-GST	S-GST	I-GST
Expected rate	9%	9%	18%
Collected by	Central government	State government	Central government
Retained by	Central government	State government	Central and State government

6.3. Taxable person

Manufacturers, Traders and Service providers will be the taxable person for GST. However small business entities are exempted from such tax. Small business whose total annual turnover is less than 20 lakhs (10 lakhs in case of north east states) will be exempted from GST. Further the provisions of GST will not be applicable to Agriculturist. It should also be noted that these provisions are also not applicable for employer- employee transactions.

6.4. Taxable point

For proposed GST, the taxable point will be supply of goods or services instead of manufacture or production of goods, provision of services or sale of goods. The time of supply of goods is the earliest of following four dates:

i) Date of removal of goods by supplier
ii) Date of receipt of goods in books of receiver
iii) Date of issue of invoice
iv) Date of payment by receiver

Time of supply of services is the earliest of following dates:

i) Date of issue of invoice
ii) Date of completion of service
iii) Date of receipt of services in books of receiver

6.5. Place of supply

Supply place is the real consumption place. In general the place of supply of goods is the place where goods are delivered and the place of supply of services is the location of a registered person or the address of the recipient. Place of supply is important for the purpose of determining whether the supply is interstate or intra state. If supplier's place and supply place is in same state then it is an intra-state supply and hence S-GST and C-GST will be applicable otherwise it will become an interstate supply and I-GST will be applicable.

6.6. Input tax credit

Input tax credit under proposed GST is available subject to following conditions.

i) Input tax credit of C-GST can be taken for C-GST and I-GST only.

ii) Input tax credit of S-GST can be taken only for I-GST and S-GST only.

iii) Input tax credit of I-GST can be taken for any of the three i.e. for I-GST, S-GST and C-GST too.

In short we can say that C-GST input can't be utilized for playing S-GST and vice-versa. For claiming Input tax credit, person has to fulfill following procedural conditions.

i) Person must possess tax invoice.
ii) Person must acknowledge receipt of supply of goods/ services.
iii) Supplier must change payment of tax in invoice.
iv) Person must file GST return.

6.7. Mode

GST network will be used as common portal for submitting registration application, making tax payment and filing returns for GST. It has been incorporated as sec 8 company with 24.5 % holding by central government, another 24.5% by EC and all states together and remaining 51% by financial institutions.

TDS @ 1% will be deducted whenever the value of supply exceeds 10 lakhs. The form of assessment will be self-assessment. Audit by CA or CWA is compulsory for taxable persons.

7. COMPARISON OF PROPOSED GST AND CURRENT TAX STRUCTURE

7.1. Current tax structure

Currently a business house has to pay many indirect taxes some of which are levied by central government and others by state government. The following table gives the list of indirect taxes which one has to pay in order to do business in India.

Table 2: Listing of different type of indirect taxes applicable in India.

Indirect taxes In India	
Levied by Central Government	Levied by State government
Custom duty	Entry tax and Octroi
Excise Duty	Entertainment tax
Central Sales Tax	Electricity duty
Service Tax	Luxury tax
	VAT
	Property Tax

One has pay taxes which are applicable to them added by surcharge and cess. Each tax has its own different rate/set of rates. One of the problems of such different taxes is cascading effect. For example – If Mr. A manufactures goods for Mr. B and pays excise duty @ 10% on raw materials. He then sales the goods to Mr. B after charging central sales tax at 10%. The amount of central sales tax includes the excise duty paid on raw material and this is how it becomes tax on tax which is known as cascading effect. This happens because credit of CST was not available against excise duty and vice versa. Apart from this one has to maintain different records for different taxes increasing their documentation and expert advisory costs. There was a lack of transparency in approaches to different taxes levied by different state governments. These things made doing business in India a difficult exercise in comparison to other developing countries. Following table shows the impact of all these taxes on various stakeholders.

Table 3: Impact of present indirect taxes on various stakeholders.

Stakeholder	Intrastate trade		Interstate trade		International trade	
Manufacturer or Importer	Value of goods (1)	xx	Value of goods (1)	xx	Value of goods (1)	xx
	(+) Excise duty	xx	(+) Excise duty	xx	(+) BCD	xx
	(+) VAT	xx	(+) CST	xx	(+) CVD	xx
	Value of goods (2)	xx	Value of goods (2)	xx	Value of goods (2)	xx
Trader or Exporter	Value of goods (2)	xx	Value of goods (2)	xx		
	(+) VAT	xx	(+) CST	xx	Tax exempt	xx
	Value of goods (3)	xx	Value of goods (3)	xx		
Service Provider	Value of goods (1)	xx	Value of goods (1)	xx	Value of goods (1)	xx
	(+) Service tax	xx	(+) Service tax	xx	(+) Service tax	xx
	Value of goods (2)	xx	Value of goods (2)	xx	Value of goods (2)	xx

BCD – Basic custom duty, CVD – Countervailing duties, VAT – Value added tax, CST- Central sales tax

7.2. Tax system under GST

Under proposed GST, one has to pay only one tax i.e. Goods and services tax. Except for custom duty, tax on alcohol and some other taxes, all other indirect taxes will be subsumed under the umbrella of GST. Now one doesn't have to pay different taxes on different occasions. However India has opted for Dual GST model due to which GST has been divided in 3 parts i.e. C-GST, S-GST for intrastate transactions and I-GST for interstate transactions. The impact of proposed GST on different stakeholders has been shown in the following table.

Table 4: Impact of GST on various stakeholders

Stakeholder	Intrastate trade		Interstate trade		International trade	
Manufacturer or Importer or Trader or Service Providers	Value of goods or services (1)	xx	Value of goods or services (1)	xx	Value of goods or services (1)	xx
	(+) C-GST	xx	(+) I-GST	xx	(+) BCD	xx
	(+) S-GST	xx		xx	(+) I-GST	xx
	Value of goods or services (2)	xx	Value of goods or services (2)	xx	Value of goods or services (2)	xx

7.3. Present tax Structure v/s GST: Comparison

Table 5: Comparison of present tax system with GST

Basis	Present scenario	GST scenario
No. of Taxes	Different indirect taxes levied by central as well as state governments.	Single tax i.e. Dual layered GST levied by central and state government.
Basis of charge	Goods – Taxable at place of manufacture/sale Services – Taxable at place of rendering of services.	Taxable at place of consumption as GST is destination based tax.
Registration	Decentralized registration for different taxes under central and state governments.	Centralized registration under GST network.
Collection of tax	Different procedures for different taxes which varies from state to state.	Uniform and common process under GST network.
Filing of Return	Different dates and different provisions for each tax.	Single date for filing of return under GST network.
Input Credit of tax	Narrower scope For example – input of VAT cannot be used against excise duty.	Broader scope Only input of S-GST cannot be used against C-GST and vice versa.
Cascading effect	No set off is available for Excise duty against VAT which leads to cascading effect.	Not possible under GST since full credit is available.
Tax Rate	Different for different taxes and states.	Expected rate is 18%
Threshold limit	Central Excise – 1.5 crores VAT – between 5 to 20 lakhs Service tax – 10 lakhs	20 lakhs (10 lakhs in case of North east states)
Exemptions	Some areas like excise free zone enjoy status of excise exemptions.	No such exemptions.

8. IMPACT OF GST ON STARTUPS

8.1. Positive Impact

i) Simpler taxation

Different taxes in different states were a complex and burdensome process. Now when all indirect taxes are subsumed into one single tax, tax calculations will become simple with less paperwork. Startups related to software industry will be largely benefited from single rate of tax since in present scenario VAT, service tax and excise, all the 3 or at least first two are applied on software products or service.

ii) Common registration

Unlike before where they had to registration again and again for different taxes or different states, Startups now have to register only once on GST network and they can do business in any part of India without any hassle. This will make whole India, a common market for startups and pave ways for expansion of their business.

iii) Higher threshold limit

Threshold limit of service tax is 10 lakhs while the threshold limit of VAT varies from 5 lakhs to 20 lakhs in different states. Startups will be eligible for higher threshold limit of 20 lakhs (10 lakhs in case of North East states). Also startups whose annual turnover is less than 50 lakhs can opt for composition levy at a lower rate.

iv) Reduced logistics cost

GST might prove to be a much needed boon to e-commerce websites. According to CRISIL report, GST will reduce logistics cost by 20% helping in reducing the cost of e-commerce startups. Reduction in logistics cost will also lead to more business for logistics companies.

v) Improvement in Logistics efficiency

According to Vijay Shekhar Sharma, Founder Paytm "Due to complexities of entry tax and other processes, customers from certain states could not order some items from the online shopping destinations." Seamless movement of goods in a common market will help startups in delivering goods early to customers since state border checks used to delay the movement of goods from one state to another. Also this will bring down the inventory and storage cost of startups.

vi) Transparency and reduced compliance cost

With introduction of GST, the overall compliance cost is going to be reduced since now there is only one tax and provisions related to act to comply with. GST network will also ensure transparency in calculation of taxes and input tax credit.

8.2. Negative impact

i) Not a single rate of taxation

India has opted for dual model of GST due to which we have C-GST and S-GST for intrastate transactions and I-GST for interstate transactions. Many critics argue that these three are nothing but the new names for Central excise/service tax, VAT and CST.

ii) Increase in tax rate for service providing startups

Startups who are engaged in providing services only presently had to play service tax only at the rate of 15%. However after the introduction of GST with an expected rate of 18%, there will be an increase of 3% in tax rate for such startups. This is one of major demerits for Indian startups since majority of Indian startups are engaged in services sector. With introduction of GST they have to increase prices to compensate such increase in tax since they can't afford to absorb more losses.

iii) Exclusion of certain taxes

GST will not be the only indirect tax that a startup has to pay. Apart from GST. Startups will have to pay custom duty on imports since Custom duty is kept out of preview of GST. Further electricity, real estate etc. have been excluded from GST which may lead to a mangled Indian version of GST.

iv) Frequency of filing of return

The model GST guidelines state that e-commerce startups will have to file quarterly as well as monthly returns on GST network. Further they will also have to collect taxes from sales made on their portal .This will lead to increase in documentation and administrative cost for such start-ups.

v) Cross set off of levy is not allowed

In proposed GST, the input credit of C-GST cannot be set off against S-GST and vice versa. While in present system set off of excise duty and service tax is allowed.

9. SUMMARY AND CONCLUSION

In this paper, an attempt was made to explain the changes in indirect taxation in India after introduction of GST and its impact on various stakeholders with special focus on startups. Startups are an important source of employment and key factor in development of Indian economy besides increasing FDI inflows in India and driving innovation to solve our daily problems. Taxation is an important factor which every startup has to consider and thus it becomes very important for them to assess the impact of the proposed GST. GST is applicable to

whole of India. It subsumes almost all indirect taxes into one tax thus creating a common market and seamless flow of goods and services across the nation. There are many advantages of GST for startups. Simpler taxation and common registration will lead to ease of business. Higher threshold limit will also help small startups. Apart from that there will be a decrease in logistics and compliance cost and increase in logistics efficiency which will ultimately benefit startups as well as Indian economy.

However GST is not a single rate of taxation and exclusion of certain taxes and items can result in a mingled version of Indian GST. The main concern is the increase in tax rate by 3 %(from 15% to 18%) for service providing startups. Further the frequency of returns is more which will increase documentation and administrative cost for startups.

In conclusion we can say that Introduction of GST will have both positive and negative impact on startups. Proposed GST act may not be completely perfect but in spite of all these problems GST is one of the most business friendly reforms in India and in long term the benefits of GST for startups are likely to overcome the problems of GST.

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